

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 98-600

January 31, 2000

PUBLIC UTILITIES COMMISSION
Investigation of Stranded Costs, Transmission
And Distribution Utility Revenue Requirements
And Rate Design of Kennebunk Light & Power
District

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

By way of this order we approve transmission and distribution (T&D) utility rates for Kennebunk Light & Power District (KLP) effective March 1, 2000, the beginning of retail access to generation services in Maine. Under the rate schedules proposed by KLP, it will recover \$1,121,394 in annual revenue requirements. KLP has filed tariffs that contain identical customer charge and per kWh delivery service rate components for each customer. The effective average T&D rate per kWh for all customers will be 1.277¢/kWh, with residential rates being 1.416¢/kWh and medium and large commercial rates being 1.173¢/kWh.

II. PROCEDURAL BACKGROUND

The provisions of the Electric Restructuring Act require the Commission to conduct an adjudicatory proceeding to establish transmission and distribution utility revenue requirements, and to design stranded costs and rates for each consumer-owned electric utility (COU), prior to the start of retail access in March of 2000. 35-A M.R.S.A. §§ 3508(8), 3509(2).

On August 10, 1998, the Commission issued a Notice of Investigation which initiated a stranded costs, transmission and distribution utility revenue requirements and rate design proceeding for KLP. That notice provided interested persons with an opportunity to intervene in this matter. The Office of Public Advocate (OPA) filed a petition to intervene which was granted without objection.

On September 4, 1998, an initial case conference was held to determine the scope and processing of the case. At this conference, it was agreed that the parties would attempt to resolve the case through an informal process rather than through formal litigation. In making this determination, the parties recognized that KLP, as a COU, operates under different legal and operational conditions than do the investor-owned utilities (IOUs). Its customers are its owners, which gives its customers more control over its decisions and actions than those of IOUs'. In addition, COUs,

under 35-A M.R.S.A. § 3502, can change rates at their discretion with limited Commission oversight. Finally, instead of earning an overall rate of return on plant investment, the COUs maintain an operating margin. This margin is limited to a maximum of 25% of revenues by 35-A M.R.S.A. § 3503(C)(3) and is reflected when calculating revenue requirements. Therefore, when we reduce one component of revenue requirements, KLP may offset the reduction by increasing its reserve requirements to meet a reasonable margin allowance.

KLP's initial filing was made on November 10, 1998. During the past year, a series of technical conferences were held among the Advisory Staff and the parties to discuss the filings and further develop the case. A general consensus on principles, final rates and tariff language was reached and on December 6, 1999, KLP submitted a Chapter 120 filing reflecting these agreements.

III. DISCUSSION

A. Revenue Requirements

KLP based its revenue requirements on actual 1997 operating information as reported in its annual report filed with the Commission. It did not initially make any adjustments to this data. The parties recommended limited changes to the revenue requirements to remove one-time costs and adjust revenues and expense that were unlikely to occur in future years. KLP, in its final tariffs and supporting workpapers, reflected the changes agreed to by the parties.

We have reviewed KLP's revised revenue requirement filing and are satisfied that this level of revenue is required for KLP to perform its public utility service and to attract necessary capital on just and reasonable terms. We approve rates intended to collect revenue requirements of \$1,121,374.

B. Rate Design

In its filing, KLP proposes rate design changes to both class allocations and rate structures to bring its T&D rates in line with its costs of service. It is worth noting that KLP's last rate design and/or cost allocation filings were done prior to 1983. In this filing, KLP's proposed cost-based T&D rates would decrease the effective average total rate (including both T&D and power supply) for the residential class by 5% while increasing the rate for the industrial class by 8%. KLP decreases the non-residential minimum charge, eliminates a declining block rate for commercial customers, eliminates the demand charge for all customers, and proposes to charge identical rates to all customers.¹

¹ Area lights and street lights are not included in this proposal.

In *Maine Public Utilities Commission, Investigation of Central Maine Power Company's Stranded Costs, Transmission and Distribution Utility Revenue Requirements and Rate Design*, Docket No. 97-580, Order at 116 (March 19, 1999), the Commission concluded that a smooth and successful transition to retail access is more likely to occur if T&D rate design undergoes only minimal changes and causes no customers to experience bill increases as a result (the "no losers" principle). KLP proposed revisions to class allocations and to rate structures will necessarily result in both decreases and increases to the bills of individual customers, thereby violating the "no-losers" principle. To mitigate bill impacts, two steps were undertaken. First, KLP placed a cap of 5% on the increase to each rate group's average total rate increase (including both T&D and power supply). Because some average rate increases exceeded 5%, KLP proposes to phase-in the rate design changes over a 2-year period. While KLP will phase-in its revisions to rate design, the full change to Company revenue requirements will be carried out on March 1, 2000.

Second, KLP calculated the bill impacts of its phased-in rates on customers of varying sizes in each rate class. In some instances, a small number of customers continue to have significant increases.²

As discussed above, we desire that customers experience a smooth transition to retail access. However, we recognize COUs' unique legal and operational conditions, and we accept KLP's assertion that the advantages of bringing rates into balance with costs will offset negative impacts caused by bill increases. Therefore, we will deviate from our stated "no-losers" principle and allow KLP to carry out its proposed rate re-design when developing its T&D rates.

C. Generation Facilities

COUs were not required by electric restructuring legislation to divest their generation facilities. KLP's generation facilities consist of hydroelectric and internal combustion generation. KLP owns 600 KVA of hydroelectric and 1,000 KVA of internal combustion generation. KLP proposed that it be allowed to retain the facilities, arguing that they essentially served the function of voltage support and divestiture of the assets would not provide sufficient benefits to offset the costs of divestiture.

In its filing, KLP included the operating costs related to the facilities in its revenue requirement. The value of the power generated would be retained by ratepayers. To accomplish this, the generation portion of a customer's bill would contain a charge for only the portion of the kWhs that are produced by a competitive electricity provider; the portion of kWhs produced by internal generation would receive no charge for generation.

² For example, certain street light bills would increase by 40% or more.

KLP's generation facilities comprise only a small portion of its total generating needs. KLP has adequately reflected the costs and benefits to its ratepayers of these facilities. Therefore, we accept KLP's proposed method for treating its generating facilities.

D. Transmission/Generation Clauses

KLP has included in its rate schedules an automatic adjustment clause to reflect changes in the cost of transmission. This clause is necessary because generation providers wheel power to KLP's territory through IOUs contiguous to KLP. KLP has agreed to assume the IOU's wheeling charge so that the provider need not charge its customers a premium to cover this additional transportation cost. The charge under this tariff will change each month to reflect actual costs charged to KLP in the previous month.

KLP currently adjusts its rates monthly to reflect fluctuating costs of purchased power. Therefore, a transmission charge that changes monthly will not be a new pricing feature to KLP's customers.

We recognize that this transmission wheeling charge is an exogenous cost to KLP. We accept KLP's representation that its customers are accustomed to monthly rate fluctuations, and we accept KLP's treatment of this charge.

IV. CONCLUSIONS

We have reviewed KLP's proposed rate schedules filed on December 6, 1999, and conclude the rates contained therein are just and reasonable and will provide a level of revenue necessary for KLP to perform its public utility service and to attract necessary capital on just and reasonable terms.

Accordingly, we

O R D E R

That KLP's Rate Schedule R, 4th Revision; Rate Schedule A, 5th Revision; Rate Schedule F, pages 1 and 2, 4th Revision; Rate Schedule L, page 1, 4th Revision; Rate Schedule L, page 2, 3rd Revision; Rate Schedule LF, pages 1 and 2, Original; Rate Schedule PP, 3rd Revision; Rate Schedule FC, 3rd Revision; Rate Schedule DC, Original; Rate Schedule T, Original, filed on December 6, 1999, copies of which are attached hereto, are hereby approved to take effect for service provided on or after March 1, 2000.

Dated at Augusta, Maine, this 31st day of January, 2000.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent
 Diamond